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The Director of Central Intelligence
Washington, D.C. 20505

NIC 03266-88
7 November 1988

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Deane E. Hoffmann
National Intelligence Officer for Economics

SUBJECT: Does Iraq Covet Kuwait?

1. Action: None; this is for your information.
2. The brief Iraqi incursion into Kuwait mentioned in the attached cable should act as a reminder that a state of economic warfare exists pitting Saudi Arabia and Kuwait against Iran and Iraq. The Saudis and Kuwaits are producing oil significantly above quota to drive prices down and to obtain agreement between Iran and Iraq on production quotas. While it is likely that some agreement on quotas can be reached, perhaps in a matter of weeks, such an agreement will address only short-term issues. It will not settle the greater problem of how to make room for added Iraqi exports as that country's production capacity increases and new export facilities are built. In essence, the Iraqis and Saudis still have to settle the issue of whether Iraq will remain subservient to Saudi Arabia in the OPEC hierarchy.
3. The Iraqi incursion should be seen in a broader context of Gulf politics rather than as a simple message to Kuwait. During the war, Iran used Kuwait as a vehicle threaten the Saudis, reminding the Saudis of their military vulnerability. This incursion, thus, reminds both Kuwait and Saudi Arabia that there is a danger in challenging Iraq, whether on the issue of relations with Iran or on oil matters.
4. In strategic terms, the Iraqis have significant interests in Kuwait. On most Iraqi maps, the territory of Kuwait is shown as the southern province of Basrah, not as a separate entity. As a short-term objective, Iraq would like to control the Kuwaiti islands of Bubiyan and Warbah in order to open up a more westerly channel to the Persian Gulf well away from Iran. The least confrontational way to do this would be to "negotiate" a long-term lease for the islands. Baghdad is not blessed with an excess of diplomatic patience, however, and it could decide to take the islands militarily if Kuwait proves stubborn in negotiations.

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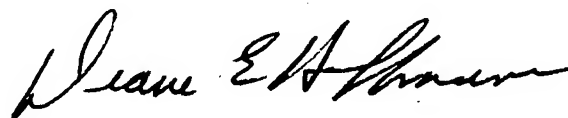
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5. Over the longer-haul, Kuwait itself is a very desirable economic objective. A military takeover of Kuwait would be a simple affair. No nation would rise to strongly defend Kuwait's interests. The added oil resources would overnight put Iraq nearly on a par with Saudi Arabia in terms of productive capacity and would give Iraq a financial position sufficiently strong to ensure dominance over Iran for years to come. Iraq and Saudi Arabia together would be the masters of world oil policy.

6. We do not know how Baghdad views the diplomatic costs of such an adventure. For now they seem content to behave relatively well and vie for world opinion as they negotiate with Iran. Should Iraq decide to take Kuwait's offshore islands by force, Arab and Western reaction will, no doubt, be viewed as a gauge to the level of response to any larger operation against mainland Kuwait. A muted response could be an invitation to disaster. In any case, we should remember that the Iraqis are very unpredictable and could move into Kuwait quite unexpectedly.



Deane E. Hoffmann

Attachment:

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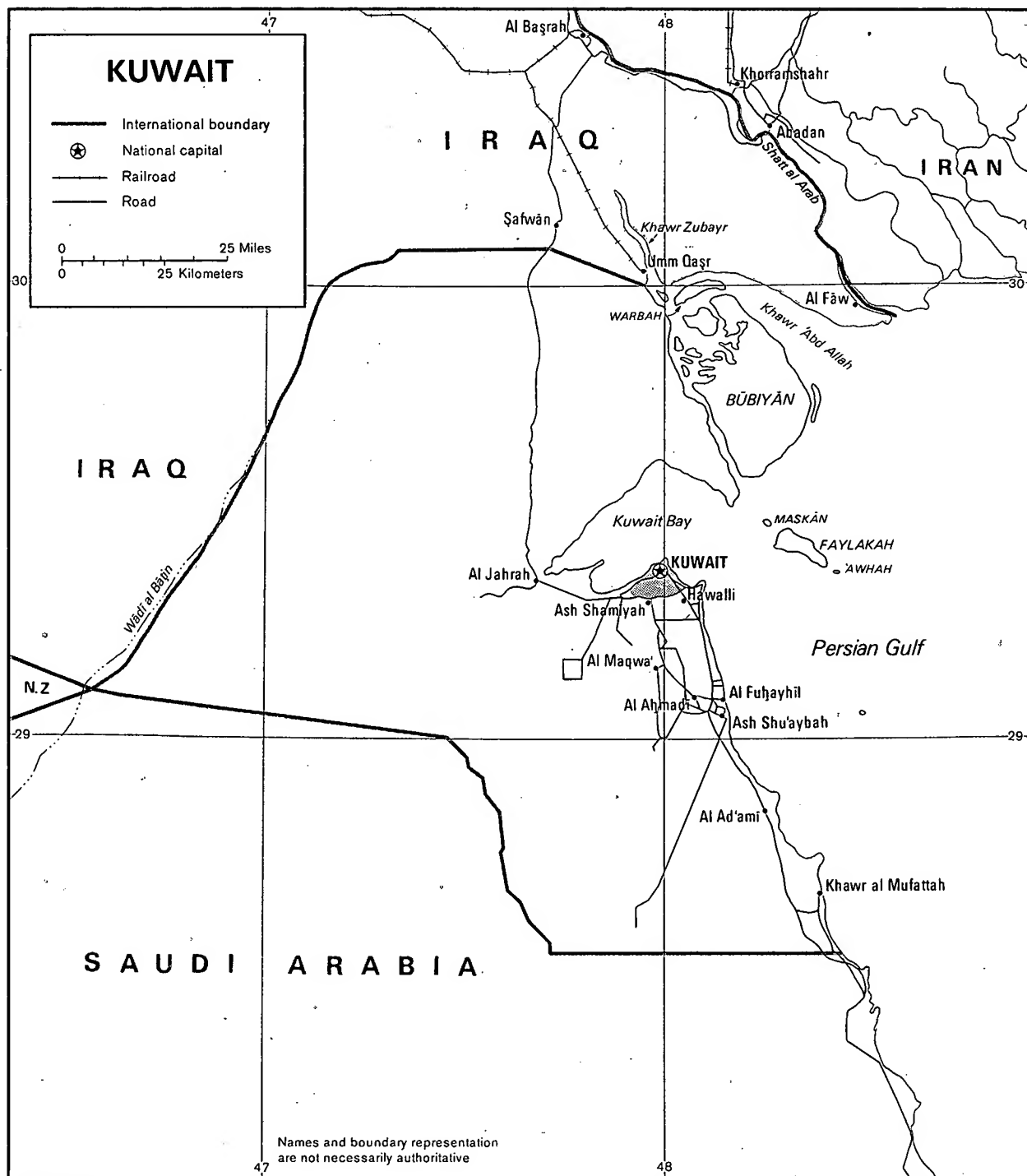
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